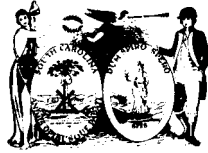


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
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June 12, 2002

Mr. John P. Barber, Executive Vice President & CFO
White Oak Manor, Inc.
Post Office Box 3347
Spartanburg, South Carolina 29304-3347

Re: AC# 3-WCH-J9 – White Oak Manor – Charleston

Dear Mr. Barber:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1998 through September 30, 1999. That report was used to set the rate covering the contract period beginning October 1, 2000.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

A handwritten signature in black ink, appearing to read 'R. James Melham for'.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph Hayes

**WHITE OAK MANOR - CHARLESTON
CHARLESTON, SOUTH CAROLINA**

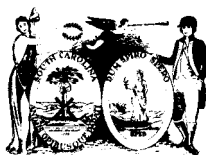
**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2000
AC# 3-WCH-J9**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIOD BEGINNING OCTOBER 1, 2000	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD BEGINNING OCTOBER 1, 2000	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 1999	C	5
ADJUSTMENT REPORT	1	6
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	7

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

January 23, 2002

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with White Oak Manor - Charleston, for the contract periods beginning October 1, 2001, and for the twelve month cost report period ended September 30, 1999, as set forth in the accompanying schedules. The management of White Oak Manor - Charleston is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.


The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by White Oak Manor - Charleston, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and White Oak Manor - Charleston dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
January 23, 2002

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

A handwritten signature in black ink, appearing to read "James McLean Jr", written over the printed name.

Thomas L. Wagner, Jr., CPA
State Auditor

WHITE OAK MANOR - CHARLESTON

Computation of Rate Change
For the Contract Period
Beginning October 1, 2000
AC# 3-WCH-J9

Interim reimbursement rate (1)	\$107.08
Adjusted reimbursement rate	<u>106.86</u>
Decrease in reimbursement rate	\$ <u><u>.22</u></u>

(1) Interim reimbursement rate from the State Health and Human Services
Computation of Reimbursement Rate dated August 2, 2001.

WHITE OAK MANOR - CHARLESTON
Computation of Adjusted Reimbursement Rate
For the Contract Period Beginning October 1, 2000
AC# 3-WCH-J9

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$52.12	\$57.78	
Dietary		10.76	10.12	
Laundry/Housekeeping/Maint.		<u>10.38</u>	<u>8.88</u>	
Subtotal	<u>\$3.52</u>	73.26	76.78	\$ 73.26
Administration & Med. Records	<u>\$1.57</u>	<u>8.98</u>	<u>10.55</u>	<u>8.98</u>
Subtotal		82.24	<u>\$87.33</u>	82.24
<u>Costs Not Subject to Standards:</u>				
Utilities		2.83		2.83
Special Services		.38		.38
Medical Supplies & Oxygen		3.37		3.37
Taxes and Insurance		1.35		1.35
Legal Fees		<u>.10</u>		<u>.10</u>
TOTAL		<u>\$90.27</u>		90.27
Inflation Factor (3.2%)				2.89
Cost of Capital				7.02
Profit Incentive (Max. 3.5% of Allowable Cost)				1.57
Cost Incentive				3.52
Effect of \$1.75 Cap on Cost/Profit Incentives				(3.34)
Nurse Aide Staffing Add-On 10/1/00				2.26
Nurse Aide Staffing Add-On 10/1/99				<u>2.67</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$106.86</u>

WHITE OAK MANOR - CHARLESTON
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 1999
 AC# 3-WCH-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
General Services	\$3,216,450	\$ -	\$ -	\$3,216,450
Dietary	663,767	-	-	663,767
Laundry	178,964	-	-	178,964
Housekeeping	266,992	-	-	266,992
Maintenance	194,620	-	-	194,620
Administration & Medical Records	554,122	-	-	554,122
Utilities	174,784	-	-	174,784
Special Services	23,520	-	-	23,520
Medical Supplies & Oxygen	217,388	-	9,675 (2)	207,713
Taxes and Insurance	83,562	-	-	83,562
Legal Fees	6,288	-	-	6,288
Cost of Capital	437,524	11,840 (4)	12,144 (1) 3,749 (3)	433,471
Subtotal	6,017,981	11,840	25,568	6,004,253
Ancillary	74,783	9,675 (2)	-	84,458
Non-Allowable	160,089	12,144 (1) 3,749 (3)	11,840 (4)	164,142
Total Operating Expenses	<u>\$6,252,853</u>	<u>\$37,408</u>	<u>\$37,408</u>	<u>\$6,252,853</u>
Total Patient Days	<u>61,710</u>	<u>-</u>	<u>-</u>	<u>61,710</u>
Total Beds	<u>176</u>			

WHITE OAK MANOR - CHARLESTON
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-WCH-J9

ADJUSTMENT NUMBER	ACCOUNT TITLE	DEBIT	CREDIT
1	Nonallowable	\$ 12,144	
	Fixed Assets	28,222	
	Other Equity	102,934	
	Accumulated Depreciation		\$131,156
	Cost of Capital		12,144
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304		
2	Ancillary Equipment Rental	9,675	
	Ancillary Medical Supplies		9,675
	To adjust medical supplies State Plan, Attachment 4.19D		
3	Accumulated Depreciation	30,111	
	Nonallowable	3,749	
	Equity		30,111
	Cost of Capital		3,749
	To adjust to reflect Cost of Capital policy State Plan, Attachment 4.19D		
4	Cost of Capital	11,840	
	Nonallowable		11,840
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$198,675</u>	<u>\$198,675</u>

Due to the nature of audit reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

WHITE OAK MANOR - CHARLESTON
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1999
AC# 3-WCH-J9

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.3156</u>	<u>2.3156</u>	
Deemed Asset Value (Per Bed)	36,165	36,165	
Number of Beds	<u>132</u>	<u>44</u>	
Deemed Asset Value	4,773,780	1,591,260	
Improvements Since 1981	585,998	262,455	
Accumulated Depreciation at 9/30/99	<u>(1,648,103)</u>	<u>(638,922)</u>	
Deemed Depreciated Value	3,711,675	1,214,793	
Market Rate of Return	<u>.06</u>	<u>.06</u>	
Total Annual Return	222,701	72,888	
Return Applicable to Non-Reimbursable Cost Centers	(152)	(50)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>94</u>	<u>55</u>	
Allowable Annual Return	222,643	72,893	
Depreciation Expense	77,333	67,719	
Amortization Expense	-	-	
Capital Related Income Offsets	(5,297)	(1,557)	
Allocation of Capital Expenses to Non-reimbursable Cost Centers	<u>(203)</u>	<u>(60)</u>	<u>Total</u>
Allowable Cost of Capital Expense	294,476	138,995	\$433,471
Total Patient Days (Minimum 96% Occupancy)	<u>46,283</u>	<u>15,427</u>	<u>61,710</u>
Cost of Capital Per Diem	\$ <u>6.36</u>	\$ <u>9.01</u>	\$ <u>7.02</u>

WHITE OAK MANOR - CHARLESTON
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1999
AC# 3-WCH-J9

6/30/89 Cost of Capital and Return on Equity		
Capital Per Diem Reimbursement	\$4.16	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	\$ <u>8.15</u>	\$ <u>9.01</u>
Reimbursable Cost of Capital Per Diem		\$7.02
Cost of Capital Per Diem		<u>7.02</u>
Cost of Capital Per Diem Limitation		\$ <u>-</u>

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